

**DISCLOSURE DOCUMENT OF**  
**LUCAS CAPITAL MANAGEMENT, LLC**

A Delaware Limited Liability Company registered with the Securities and Exchange  
Commission as an Investment Adviser

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**NEITHER THE U.S. SECURITIES AND EXCHANGE COMMISSION NOR ANY  
STATE SECURITIES AUTHORITY HAS PASSED UPON THE ADEQUACY OR  
ACCURACY OF THIS DISCLOSURE DOCUMENT. REGISTRATION AS AN  
INVESTMENT ADVISER DOES NOT IMPLY A CERTAIN LEVEL OF SKILL  
OR TRAINING.**

The Date of this Disclosure Document is

August 30, 2017

The delivery of the Disclosure Document at any time does not imply that the information contained herein is correct as of any time subsequent to the date shown above. This Disclosure Document will supersede all other documents containing information about this advisory program.

## **Material Changes to Disclosure Document**

Ownership of the firm has been transferred from Russell Lucas at Full Ownership to equal weight (50/50) to Ralf Sellig and Robert Vogel. Russell Lucas has resigned from Lucas Capital Management, LLC effective December 1, 2016.

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I. Part 2A – Disclosure Items about Firm

4. **General Information about Firm.**

- (A) **Operational and Organizational Information.** Lucas Capital Management, LLC (“Firm or LCM”), a U.S. Securities and Exchange Commission (“SEC”) registered investment adviser, is one of several affiliated entities in the Lucas family of investment companies. This family of entities also includes Lucas Capital Portfolio Management (LCPM), Lucas Capital Advisory Program (LCAP), Lucas Capital Financial Planning, Lucas Energy Total Return Partners LP (LETRP), Lucas Energy Total Return Partners II LP (RIP 2), Lucas Energy Ventures III, LP (LEV III). As stated on the cover page of this Disclosure Document, registration as an investment adviser does not imply a level of skill or training. LCM has been in business since February 16th, 1996 and has been a registered investment adviser since September 20th, 2000. Ralf Sellig and Robert Vogel are equal owners of Lucas Capital Management, LLC.
- (B) **Types of Advisory Services Offered.** Firm provides discretionary investment management services to separately managed accounts, and has discretionary investment authority over the assets of pooled investment vehicles, as described herein. Advisory services include among other things, providing advice regarding asset allocation and the selection of investments. The decisions relating to the investment advice are based on analysis of the merits of the security involved and on the relevant investment guidelines and restrictions. Firm does not provide investment advice only with respect to limited types of investments.
- (C) **Client Investment Guidelines and Parameters.** In certain instances, upon client request, Firm may tailor its advisory services to the individual needs of separately managed accounts. Clients may also impose restrictions on investing in certain securities or types of securities by specifying such restrictions in a written notice to Firm. Firm provides discretionary and/or non-discretionary investment advisory services to all fee paying clients’ accounts. In connection with managing the investments of its separate account clients, such account’s investment management agreements provide investment guidelines and parameters that provide the context within which Firm renders its investment management services, subject to such investment decisions being approved by the relevant client.

- (D) Firm will obtain from its clients a full, clear and complete understanding of its clients' current financial situation, financial holdings, investment objectives, risk tolerance, and investment needs and wants. The client is responsible for the accuracy and adequacy of information, records, and data provided to the Firm

(E) **Wrap Fee Programs.**

LCM offers three main products for a wrap fee. They are the Lucas Capital Advisory Program (LCAP), the Lucas Capital Portfolio Management (LCPM) Program, and the Lucas Capital Financial Planning (LCFP) Program.

The main differences between the three are:

The Lucas Capital Advisory Program (LCAP) is a covenant entered into between LCM and the client in which Lucas Capital advises the client as to how the funds should be allocated between sub advisers. Lucas Capital Portfolio Management may be one of these sub advisers.

The Lucas Capital Portfolio Management (LCPM) is an agreement between LCM and the client in which the client authorizes LCM to manage the assets as LCM finds fit based on client financial information and the "Investment Objectives and Guidelines" section of the Management Contract. This program allows use of mutual funds purchased at NAV or closed end funds at the market for a portion of the account.

The Lucas Capital Financial Planning (LCFP) includes analysis of clients overall financial situation. Based review of client's goals and preferences, focus is brought to bear where a specialist should be consulted regarding such items as wills, trust documents, and insurance – in addition to investment management. This service is generally included with the Lucas Capital Advisory Program or the Lucas Capital Portfolio Management. If a fee is negotiated or received at all, it is fully disclosed to the client.

(F) **Client Assets Under Management.** *(rounded to the nearest \$1,000)*

(i) Discretionary: \$181,481,000 as of 12/31/2016

(ii) Non-discretionary: \$1,262,000 as of 12/31/2016

5. **Fees and Compensation.**

- (A) All fees are individually negotiated. Circumstances considered when negotiating fees may include, without limitation, customary market rates, specialized guidelines, and other performance/incentive fee arrangements with the client.

Management fees for separately managed or pooled investment accounts are calculated based on an annual percentage of the value of the assets under management.

In addition, Firm may collect incentive fees based on the performance of investments. Please refer to Section 3, below, for a more detailed description of performance or incentive fees, and related conflicts of interest.

- (B) Management fees are billed quarterly as specified in the relevant investment services agreement or applicable pooled vehicle transaction document. Management fees are billed at the beginning of the quarter. LCM does not charge an incentive fees.

(C) **Additional Fees.**

All expenses incurred in connection with evaluating (regardless of whether such investments are ultimately made), purchasing, holding and disposing of investments in an underlying private investment fund (“Underlying Fund”) (including, but not limited to, research reports, brokerage commissions, margin interest, expenses related to short sales, custodial fees, commissions on investments in underlying funds and clearing and settlement charges) will be born by clients and investors in pooled investment vehicles managed by Firm in addition to any fees directly charged by Firm. The expenses and fees of the Underlying Funds are in addition to the expenses, the management fees and incentive fees charged by Firm. In addition, where Firm invests in affiliated Underlying Funds, Firm and its affiliates may collect multiple levels of fees and expenses. In the case of investments in Underlying Funds managed by investment managers in which Firm and/or its affiliates have a non-controlling equity interest (if any), in any such event, the invested client may be charged an additional performance fee and/or management fee by the investment manager, which would effectively result in additional financial benefits accruing to Firm or its affiliates in their capacity as a noncontrolling equity owner of such investment manager.

In addition, clients will incur brokerage and other transaction costs. Clients should review carefully Section 12, which discusses conflicts of interest related to brokerage practices. Brokerage commissions and/or transaction ticket fees charged by the

custodian will be billed directly to the client. LCM will not receive any portion of such commissions or fees from the custodian or client. In addition, clients may incur certain charges imposed by third parties other than Firm in connection with investments made through the account, including but not limited to, mutual fund sales loads, 12(b)-1 fees, and surrender charges, and IRA and qualified retirement plan fees. Management and/or Performance fees charged by Firm are separate and distinct from the fees and expenses charged by investment company securities that may be recommended to clients. A description of these fees and expenses are available in each investment company security's prospectus.

(D) **Fees Paid in Advance.** Firm does not permit clients to pay any fees in advance.

(E) No Supervised person may accept compensation for the sale of securities or other investment products, including asset based sales charges or service fees from the sale of mutual funds unless specifically approved by the chief compliance officer. If approval is given, full disclosure is given to the client and written approval by the client must also be accepted by LCM. An example of this would be through a Private Placement, but no such occurrence has taken place in the last year.

(F) **Termination of Services.**

Either client and/or Firm may terminate the asset management agreement by providing at least 30 days' prior written notice to the other party. Termination will be effective upon receipt of notification by the other party. If services are terminated within 5 business days of executing the agreement, services will be terminated without penalty. If services are terminated after the initial five day period, the performance based fee will be calculated based on the percentage of capital appreciation within the account on the date of termination and billed to the client. If a contract is terminated, the unearned portion of any prepaid fee will be refunded to the client.

## 6. **Performance Based Fees.**

In addition to the Management Fee, LCM is compensated for its investment management services through an incentive fee, also known as a performance based fee ("Performance Fee") in its hedge funds. Under this arrangement, the client will be charged a fee contingent upon the performance within the client's account. The Performance Fee will be tied

to the capital appreciation within the account as evaluated at the end of each calendar year. The Performance Fee will be payable annually, in arrears. The Performance Fees in the hedge funds may vary from client to client, but will not exceed a 20% performance fee with a 4% hurdle rate. A hurdle rate is the minimum annual return to clients before LCM can receive any performance fee.

In order for Firm to receive a Performance Fee, Firm must achieve capital appreciation within the account. Firm will charge Performance Fees in adherence with a high water mark, which means that no Performance Fee will be earned unless the performance exceeds the previously achieved high water mark where Performance Fees were charged. The high water mark will be used in order to prevent a scenario whereby Firm could receive a Performance Fee merely for recouping prior losses. A full description of the entire fee arrangement will be disclosed to the client in such client's investment advisory agreement. Fees generally are deducted directly from the client's account, as specified in the relevant asset management agreement. Firm's receipt of Performance Fees is intended to align Firm's interests with those of Firm's clients, and, to provide Firm with a greater incentive to manage assets well. The nature of the Performance Fee creates a potential conflict of interest between Firm, its associated persons, and clients.

Such fees will be structured and charged in a manner consistent with the requirements of applicable law, including the Investment Advisers Act of 1940 and ERISA. An incentive fee arrangement may create an incentive for Firm to make investments that are riskier or more speculative than would be the case in the absence of a Performance Fee. Where any part of Firm's compensation is based in part on the unrealized appreciation of securities or instruments for which market quotations are not readily available, Firm shall disclose how such securities or instruments will be valued and the extent to which the valuation will be determined independently. To the extent Firm values any such securities or instruments it has a conflict of interest as Firm will receive higher management fees and Performance Fees if it gives such securities and instruments a higher valuation. Firm does not represent that the amount of the Performance Fees or the manner of calculating the Performance Fees is consistent with other performance related fees charged by other investment advisers under the same or similar circumstances. The Performance Fees charged by Firm may be higher or lower than the Performance Fees charged by other investment advisers for the same or similar services.

Firm may receive increased compensation with regard to unrealized appreciation as well as realized gains in the client's account, depending on the specific time periods and the nature of any preferred returns. Where

any part of Firm's compensation is based in part on the unrealized appreciation of securities or instruments for which market quotations are not readily available, Firm shall disclose how such securities or instruments will be valued and the extent to which the valuation will be determined independently.

In addition, in the event that Firm manages an account from which it collects Performance Fees and also manages at the same time an account from which it does not collect fees other than Performance Fees, such as management fees, Firm has an incentive to favor accounts for which it receives the Performance Fee because it will receive a greater profit from the accounts which are charged Performance Fees. Therefore, Firm has an incentive to allocate investments that are expected to be more profitable to accounts from which it collects Performance Fees, on the one hand, and that are riskier on the other hand, since in both scenarios, Firm may receive greater fees if the investment generates a positive return.

**7. Types of Clients.**

LCM manages portfolio assets for individuals, pensions and profit sharing plans, trusts and estates and institutional investors. LCM generally requires new accounts to have assets of \$100,000 or greater. Related accounts may be grouped when determining if the \$100,000 minimum is met. An exception to this rule may be waived at the discretion of the firm.

**8. Methods of Analysis, Investment Strategies and Risk of Loss.**

LCM offers advice on exchange-listed securities, securities traded over the counter, foreign issuers, corporate debt securities, US Government securities, Municipal securities and mutual fund shares (limited). LCM's security analysis methods include fundamental and technical from sources as financial newspapers and magazines, inspections of corporate activities, research materials prepared by others, annual reports, prospectuses and filings with the SEC and company press releases. Investment strategies used to implement any investment advice given to clients include short term and long term purchases. Investing in securities involves risk of loss that clients should be prepared to bear.

**9. Disciplinary Information.**

Neither Lucas Capital Management nor any supervised person has been involved in any legal or disciplinary event.

**10. Other Financial Industry Activities and Affiliations.**



LCM may recommend or select other investment advisers for our clients and receive compensation from those advisers. This compensation would not exceed the fee schedule of LCM, therefore this would not create a conflict of interest. LCM does not have any other business relationships with such advisers that create a conflict of interest.

**11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.**

(A) **Code of Ethics** LCM has adopted a code of ethics pursuant to SEC Rule 204A-1. Such code of ethics is available to any client or prospective client on request. The Code of Ethics is based upon the premise that all Firm personnel have a fiduciary responsibility to render professional, continuous and unbiased investment advisory service. The Code of Ethics requires all personnel to (1) comply with all applicable laws and regulations; (2) observe all fiduciary duties and put Client interests ahead of those of Firm; (3) observe Firm's personal trading policies so as to avoid "front-running" and other conflicts of interests between Firm and its Clients; (4) ensure that all personnel have read the Code of Ethics, agreed to adhere to the Code of Ethics, and are aware that a record of all violations of the Code of Ethics will be maintained by the Chief Compliance Officer Julie Gouveia and that personnel who violate the Code of Ethics are subject to sanctions by the Firm, including termination at the discretion Ralf Sellig or Robert Vogel.

(B) **Participation or Interest in Client Transactions.** Firm recognizes that the personal securities transactions of its employees demand the application of a high code of ethics, and Firm requires that all such transactions be carried out in a way that does not endanger the interest of any client. At the same time, Firm believes that if investment goals are similar for clients and for employees of Firm, it is logical and even desirable that there be common ownership of some securities. Therefore, in order to address conflicts of interest, Firm has adopted a set of procedures, included in its Code of Ethics, with respect to transactions effected by its officers, directors and employees (hereafter, "Employees") for their personal accounts. In order to monitor compliance with its personal trading policy, LCM has adopted a daily securities transaction reporting system for all of its Employees. Additionally, all personal trades must be pre-cleared by the Co-Compliance Officer, Brett Flynn. For purposes of the policy, an Employee's "personal account" generally includes any account (a) in the name of the Employee, his/her spouse, his/her minor children or other dependents residing in the same household, (b) for which the

Employee is a trustee or executor, or (c) which the Employee controls, including Firm's client accounts which the Employee controls and in which the Employee or a member of his/her household has a direct or indirect beneficial interest.

Associated persons of Firm may recommend to clients the purchase or sale of investment products in which it or a related person may have some financial interest, including but not limited to, the receipt of compensation. Records will be maintained of all securities bought and sold by associated persons and related persons.

Additionally, the Code of Ethics sets forth Firm's policies and procedures with respect to material, non-public information and other confidential information, and the fiduciary duties that Firm and each of its Employees has to each of its clients. The Code of Ethics is circulated at least annually to all Employees, and each Employee, at least annually must certify in writing that he or she has received and followed the Code of Ethics and any amendments thereto. Firm will provide a copy of the Code of Ethics to any client or prospective client upon request.

- (C) **Aggregation of Orders.** Transactions implemented by Firm for accounts may be effected independently or on an aggregated basis. Firm anticipates that frequently it will decide to purchase or sell the same securities for several clients at approximately the same time. Firm will aggregate orders when it believes aggregation may prove advantageous to clients. When Firm aggregates client orders, the allocation of securities among client accounts will be done on a fair and equitable basis. Typically, the process of aggregating client orders is done in order to achieve better execution, to negotiate more favorable commission rates or to allocate orders among clients on a more equitable basis in order to avoid differences in prices and transaction fees or other transaction costs that might be obtained when orders are placed independently. Under this procedure, transactions will be averaged as to price and execution cost and will be allocated among Firm's clients in proportion to the purchase and sale orders placed for each client account on any given day. When Firm aggregates client orders for the purchase or sale of securities, including securities in which its associated person(s) may invest, Firm will do so in a fair and equitable manner. It should be noted that Firm does not receive any additional compensation or remuneration as a result of aggregation.

- (D) **Allocation of Trades.** Firm may at times determine that certain securities will be suitable for acquisition by clients and by other accounts managed by Firm, possibly including Firm's own accounts or accounts of an affiliate. If that occurs, and Firm is not able to acquire the desired aggregate amount of such securities on terms and conditions which Firm deems advisable, the Firm will endeavor in good faith to allocate the limited amount of such securities acquired among the various accounts for which Firm considers them to be suitable. Firm may make such allocations among the accounts in any manner which it considers to be fair under the circumstances, including but not limited to allocations based on relative account sizes, the degree of risk involved in the securities acquired, and the extent to which a position in such securities is consistent with the investment policies and strategies of the various accounts involved.
- (E) **Other Activities of Firm and its Affiliates.** LCM is actively involved in managing two hedge funds and one private equity funds. The description of each funds are as follows:

#### **LUCAS ENERGY TOTAL RETURN PARTNERS (LETRP)**

Lucas Capital Management makes all the investment decisions for Lucas Energy Total Return Partners, LP (“Partnership”), a limited partnership organized under the Delaware Revised Uniform Limited Partnership Act (“Partnership Act”), is offering limited partnership interests in the Partnership (“Interests”) in a private placement pursuant to Section 4(2) of the Securities Act of 1933, as amended (“Securities Act”), and Regulation D promulgated there under. Generally, only persons who are Accredited Investors and Qualified Clients (as such terms are defined under the federal securities laws) may purchase Interests.

Lucas Capital Management has discretionary authority to invest the Partnership’s portfolio of securities. Lucas Energy, LLC, a Delaware limited liability company, is the general partner of the Partnership (the “General Partner”) and is responsible for the day-to-day administration of the Partnership’s affairs. As the principal members, managers and controlling persons of the General Partner and the Investment Manager, Ralf Sellig and Robert Vogel control all of the Partnership’s operations and activities, including the management of its portfolio.

The Partnership was formed to pool investment funds of its investors (each a “Limited Partner” and, collectively, “Limited Partners”; and the General Partner together with Limited Partners shall be referred to as “Partners”) for the purpose of investing and trading in a wide variety of securities and financial instruments, domestic and foreign, primarily

focusing on investments in royalty trusts and other energy and resource oriented securities. The Interests will be continuously offered in the sole discretion of the General Partner. The minimum investment amount is \$1,000,000, although the General Partner has discretion to accept lesser amounts. Generally, new Limited Partners will be admitted on the first day of each calendar month and withdrawals may be made at the end of each month. In consideration for its services, the Investment Manager receives a 0.25% quarterly management fee based on the Partnership's net assets and the General Partner receives a 20% annual performance allocation based on the Partnership's net income subject to a 4% hurdle rate.

The Limited Partners, by pooling their assets in the Partnership, will be able to invest their funds in a portfolio of securities managed by the Investment Manager that is seeking to maximize return while controlling risk. In the absence of a pooling vehicle such as the Partnership, an investor would not ordinarily be able to monitor, evaluate and implement the same investment strategies as the Partnership. Also, without a pooling vehicle such as the Partnership, investors would have to undertake many special tax calculations in order to benefit from the anticipated tax advantages associated with the Partnership's investment program.

## **LUCAS ENERGY TOTAL RETURN PARTNERS II (LETRP2)**

Lucas Capital Management makes all the investment decisions for Lucas Energy Total Return Partners II, LP (LETRP2), a limited partnership organized under the Delaware Revised Uniform Limited Partnership Act, is offering limited partnership interests in the Partnership ("Interests") in a private placement pursuant to Section 4(2) of the Securities Act of 1933, as amended ("Securities Act"), and Regulation D promulgated there under. Generally, only persons who are Accredited Investors and Qualified Clients (as such terms are defined under the federal securities laws) may purchase Interests.

Lucas Capital Management has discretionary authority to invest the Partnership's portfolio of securities. Lucas Energy II, LLC, a Delaware limited liability company, is the general partner of the Partnership (the "General Partner") and is responsible for the day-to-day administration of the Partnership's affairs. As the principal members, managers and controlling persons of the General Partner and the Investment Manager, Ralf Sellig and Robert Vogel control all of the Partnership's operations and activities, including the management of its portfolio.

The Partnership was formed to pool investment funds of its investors (each a “Limited Partner” and, collectively, “Limited Partners”; and the General Partner together with Limited Partners shall be referred to as “Partners”) for the purpose of investing and trading in a wide variety of securities and financial instruments, domestic and foreign, primarily focusing on investments in royalty trusts and other energy and resource oriented securities. The Interests will be continuously offered in the sole discretion of the General Partner. The minimum investment amount is \$1,000,000, although the General Partner has discretion to accept lesser amounts. Generally, new Limited Partners will be admitted on the first day of each calendar month and withdrawals may be made at the end of each month. In consideration for its services, the Investment Manager receives a 0.25% quarterly management fee based on the Partnership’s net assets and the General Partner receives a 20% annual performance allocation based on the Partnership’s net income subject to a 4% hurdle rate.

The Limited Partners, by pooling their assets in the Partnership, will be able to invest their funds in a portfolio of securities managed by the Investment Manager that is seeking to maximize return while controlling risk. In the absence of a pooling vehicle such as the Partnership, an investor would not ordinarily be able to monitor, evaluate and implement the same investment strategies as the Partnership. Also, without a pooling vehicle such as the Partnership, investors would have to undertake many special tax calculations in order to benefit from the anticipated tax advantages associated with the Partnership’s investment program.

### **LUCAS ENERGY VENTURES III, LP (LEV III)**

Lucas Energy Ventures III, LP, is a private investment fund formed by Lucas Energy Partners III, LLC, the “General Partner”. Lucas Capital Management, LLC is the investment manager of LEV III and have discretionary investment authority over LEV III assets. The Partnership is being formed to invest in North American oil and gas assets, which include ownership interests in producing oil and gas wells and ownership interests in nonproducing properties and exploratory prospects, and entities controlling oil and gas assets. The Partnership intends to invest in exploratory and developmental drilling through direct and indirect investments alongside proven operators with whom the Partnership has long established relationships. LEV III does not seek to operate any wells or facilities, but rather intends to invest in non-operating interests as co-venturers with operating companies and in companies operating such wells or facilities. Lucas intends to build a balanced portfolio of investments in producing properties, developmental drilling, and exploratory opportunities.

**SUB ADVISER to the STERLING LONG / SHORT EQUITY FUND**  
Lucas Capital Management, LLC acts as a sub adviser to Sterling Capital's Long Short Equity Fund. The Fund was launched on December 13th, 2013 and as of 12/31/13, Lucas Capital Management was one of four sub advisers.

- (F) **Trade Error Policy.** Firm has internal controls in place to prevent trade errors from occurring. On those occasions when such an error nonetheless occurs, Firm will use reasonable efforts to correct the error. For any error Lucas Capital Management or the executing broker is responsible for which cannot be corrected without a loss, Lucas Capital Management or the executing broker will incur the loss and the client will be made whole.
- (G) **Privacy Policy.** Firm has adopted a privacy policy that explains the manner in which Firm collects, utilizes and maintains nonpublic personal information about clients, as required under federal legislation.

Collection of Information and Disclosure of Nonpublic Personal Information:

To provide clients with superior service, Firm may collect several types of nonpublic personal information about clients, including:

- Information from forms that clients may fill out, such as subscription forms, questionnaires and other information provided by clients in writing, in person, by telephone, electronically or by any other means. This information includes name, address, nationality, tax identification number, and financial and investment qualifications;
- Information clients may give orally;
- Information about transactions within Firm, including account balances, investments and withdrawals;
- Information about the amount clients have invested, such as initial investment and any additions to and withdrawals from an investment in the Fund; and
- Information about any bank accounts clients may use for transfers to or from managed accounts.

Firm does not sell or rent client information. Firm uses this information to conduct business with its clients; to develop or

enhance its products and services; to understand the financial needs of its clients so that Firm can provide such clients with quality products and superior service; and to protect and administer its clients' records, accounts and funds. Firm does not disclose nonpublic personal information about its clients to nonaffiliated third parties or to affiliated entities, except as permitted or required by law. For example, Firm may share nonpublic personal information in the following situations:

- To service providers in connection with the administration and servicing of Firm, which may include attorneys, accountants, auditors and other professionals. Firm may also share information in connection with the servicing or processing of Fund transactions;
- To affiliated companies in order to provide clients with ongoing personal advice and assistance with respect to the products and services clients have purchased through Firm and to introduce clients to other products and services that may be of value to such clients;
- To respond to a subpoena or court order, judicial process or regulatory authorities;
- To protect against fraud, unauthorized transactions (such as money laundering), claims or other liabilities; and
- Upon consent of a client to release such information, including authorization to disclose such information to persons acting in a fiduciary or representative capacity on behalf of the client.

#### Protection of Information:

Firm's policy is to require that all employees, financial professionals and companies providing services on its behalf keep client information confidential.

Firm maintains safeguards that comply with federal standards to protect client information. Firm restricts access to the personal and account information of clients to those employees who need to know that information in the course of their job responsibilities. Third parties with whom Firm shares client information must agree to follow appropriate standards of security and confidentiality. Firm's privacy policy applies to both current and former clients. Firm may disclose nonpublic personal information about a former client to the same extent as for a current client.

## 12. **Brokerage Practices.**

The factors that Firm considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation are described herein.

### (A) **“Soft Dollar” Policy.**

In addition to research services, Firm may be offered other non-monetary benefits by broker-dealers that it may engage to execute securities transactions on behalf of clients. These benefits may take the form of special execution capabilities, clearance, settlement, online pricing, block trading and block positioning capabilities, willingness to execute related or unrelated difficult transactions in the future, order of call, consultations, economic and market information, portfolio strategy advice, industry and company comments, technical data, recommendations, general reports, efficiency of execution. Lucas Capital’s policy is to stay within the Section 28(e) safe harbor. As such, Lucas Capital will only receive products and services that have a mixed use if it makes a good faith allocation of the value of the non-research products and services it receives and pays for such non-research items in hard dollars.

In the past year, LCM has only used soft dollars for third party research.

The foregoing benefits may be available for use by the Firm in connection with transactions in which clients will not participate. The availability of these benefits may influence Firm to select one broker rather than another to perform services for clients. Nevertheless, Firm will attempt to assure either that the fees and costs for services provided to clients by brokers offering these benefits are not materially greater than they would be if the services were performed by equally capable brokers not offering such services or that clients also will benefit from the services.

The use of brokerage commissions to obtain investment research services and to pay for the administrative costs and expenses of Firm or its affiliates creates a conflict of interest between Firm and clients because the clients pay for such products and services that are not exclusively for the benefit of clients and that may be primarily or exclusively for the benefit of Firm. To the extent that Firm is able to acquire these products and services without expending its own resources (including management fees paid by clients), Firm's use of soft-dollars would tend to increase Firm's



profitability. In addition, the availability of these non-monetary benefits may influence Firm to select one broker rather than another to perform services for clients. Firm has an incentive to select or recommend a broker-dealer based on its interest in receiving the research or other products or services, rather than on a client's interest in receiving the most favorable execution. Moreover, Firm may cause clients to pay commissions (or markups or markdowns) higher than those charged by other broker-dealers in return for soft dollar benefits. In the event that Firm uses soft dollar benefits, Firm will use such benefits to service all client accounts rather than only those accounts that paid for the benefits. The Limited Partnership Agreement for the Fund specifically authorizes these practices to the fullest extent permitted by law.

Firm reserves the right to pay a fee or commission, in its sole discretion, to brokers or other persons who introduce clients to Firm, provided that any such fee or commission will be paid solely by Firm or its affiliates and no portion thereof will be paid by clients.

- (B) **Directed Brokerage**.— Although LCM is not currently involved in directed brokerage, LCM reserves the right to direct brokerage.
- (C) **Best Execution For Managed Accounts**— LCM attempts to negotiate the best possible commission rates with independent brokers, including Fidelity Brokerage Services, LLC and/or National Financial Services, LLC. LCM does not share commissions with such brokers and does not mark up the rates negotiated. Commission fee schedules are fully disclosed, subject to change, and available upon request. In addition to Account Fees and transaction charges, clients may also incur certain charges imposed by third parties in connection with investments made through program accounts. The fees for the Lucas Capital Financial Planning (LCFP) are generally waived for those clients that are already participating in the other advisory programs within LCM. If additional work or outside consultants are used and the clients are to be charged, a statement with the charges will be delivered to the clients and agreed upon by all parties before any charges are incurred.
- (D) **Best Execution For Hedge Funds**— The Hedge Funds of LCM attempt to negotiate the best possible commission rates with independent brokers. LCM does a quarterly review of all executing brokers for the funds and ranks each broker on, but not limited to, research, commission charges, block trading, limit order execution, and ability to work an order.

**13. Review of Accounts.**

- (A) LCM reviews investment advisory activities on a quarterly basis at a minimum. This review includes general review for accuracy and compliance with stated manager guidelines and policies. LCM account managers also perform a monthly and quarterly review of accounts for consistency and adherence to investment philosophy. Reviews may consist of analysis of trade blotters, monthly statements, and if necessary, a discussion with clients and selected investment managers. Additional information from the selected investment managers may be requested on an as-needed basis. On at least an annual basis, LCM may request a meeting with a client to discuss, in general, the adviser's performance as well as the clients continued suitability for the selected manager program.
- (B) Reports showing performance are sent to clients quarterly. In addition, realized gains/losses, interest and dividends earned are reported to clients annually. Each investor of the Fund also will receive the following: (i) annual financial statements of the Fund, audited by an independent certified public accounting firm, (ii) in the discretion of Firm or an affiliate of Firm, a periodic letter and/or report discussing the results of the accounts, (iii) copies of such investor's Schedule K-1 to the Fund's tax returns, and (iv) other reports as determined by Firm or an affiliate of Firm in its sole discretion.

**14. Client Referrals and Other Compensation.**

Firm may use independent third party solicitors to refer clients and/or investors to the Fund and pay a portion of its advisory fees to such solicitors, in accordance with the Advisers Act. Firm may engage underwriters, brokers, dealers or finders to assist in the offering of interests in the Fund. Except for commissions on brokerage transactions which will be paid by clients, Firm will pay and will not charge clients fees and commissions that may be payable to any such brokers or finders for assisting in the offering or sale of interests in the Fund.

- 15. Custody.** Firm maintains client funds and securities at a qualified custodian. As stated above in Item 13, Review of Accounts, Firm's and Fund's qualified custodian will send monthly, or at a minimum quarterly, account statements directly to clients which clients should carefully review. Clients are urged to compare statements that are received from the qualified custodian to statements received directly from Firm.

16. **Investment Discretion.** Firm has discretionary investment authority over client assets that are managed by LCM as agreed to when the client completes a managed account agreement for a managed portfolio or a subscription agreement for the funds.

17. **Voting Client Securities – Proxy Policy.**

- (A) Firm monitors corporate actions of those securities it has purchased on behalf of its Hedge Fund Clients. Proxy votes will generally be submitted electronically but may be submitted by mail. A record of the proxy votes cast will be made and retained by Firm. Clients can obtain information on how the proxies were voted and a detailed description of Firm's policies and procedures regarding proxy voting by requesting such information from the chief compliance officer.

Firm understands and appreciates the importance of proxy voting. To the extent that Firm has discretion to vote the proxies of its hedge fund clients, Firm will vote any such proxies in the best interests of those clients and investors (and in accordance with the policies and the procedures outlined below.

In evaluating how to vote a proxy, Firm will first determine whether there is a conflict of interest related to the proxy in question between Firm and its clients. This examination will include (but will not be limited to) an evaluation of whether Firm (or any affiliate of Firm has any relationship with the company (or an affiliate of the company) to which the proxy relates outside an investment in such company by a client of Firm. If a conflict is identified and deemed “material” by Firm, on a Proxy Voting Committee organized by Firm, Firm will determine whether voting in accordance with these proxy voting guidelines is in the best interests of affected clients (which may include utilizing an independent third party to vote such proxies). With respect to material conflicts, Firm will determine whether it is appropriate to disclose the conflict to affected clients and investors and give clients and investors the opportunity to vote the proxies in question themselves, if applicable.

LCM will generally vote proxies in favor of company management for which the proxy is being voted on unless LCM comes to an agreement to vote differently, acting in the best interests of the clients.

- (B) LCM does not vote proxies on behalf of its managed account clients. Those clients of LCM will receive proxies and other solicitations directly from the custodian. Clients are free to vote as

they see fit or they may contact Lucas Capital to discuss the proxy or a particular solicitation for help, guidance, and/or advice on how to vote.

**18. Financial Information.**

Registrants are required to furnish a balance sheet for the most recent fiscal year if they require prepayment of more than \$1200 in fees per client six months or more in advance. This requirement is not applicable to LCM. Because LCM has discretionary authority over and/or custody of client funds or securities, LCM does not have any financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients.

**19. Requirements for State-Registered Advisers.**

**Not Applicable to Registrant**